Audit's® MARKET ANALYSIS OF REITS AND REAL ESTATE COMPANIES
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Realty Stock Review
April 21, 1989 Volume XX, Number 7

6% Cash Flow Growth Still in Store for Equity REITs

Competitive Markets and A Few Problems Restrain CFS; Current Values Estimated For First Time

Cash flow for the 10 equity REITs reviewed this issue is laboring as 1989 nears the half-way point and we see some very uneven performances. Still, when all our estimates are added, net operating cash flow growth should average 6%-6.5% for 1989, about the same as final 1988 numbers.

The real key to understanding these equity REITs is how they benefit from a widening two-tier market developing for seasoned equity REITs. This gives the seasoned equity players the massive advantage of a tremendously lower cost of capital relative to virtually all other REITs. The ten yield a composite 6.82% on current market prices, ranging from 5.1% for Washington REIT up to 8.23% for IRT Property Co.

In contrast, all property REITs yielded 7.7% at the end of March and all REITs were yielding 9.9%. This lower cost of capital for the seasoned equity REITs gives them two powerful edges:

1. New money raising. One REIT, Burnham Pacific, raised new money in January. Santa Anita Realty, to be reviewed next issue, sold new shares in March. And New Plan Realty is currently in registration with a 3.3 mil. share offering. Including sales costs, most of these REITs can raise money at an effective cost of 7% or so. Many other REITs are effectively foreclosed from raising new money in today's stock market.

2. Positive spread on new investments. With money costing 7%, these equity REITs can put out investment money at 9% or better and make 2% on their new investments. Thus lower capital costs translate into future EPS, cash flow and dividend growth.

This has led to a crowding of new investment dollars into the shares of the older, better known equity REITs with established track records, and made it more difficult than ever for smaller and less well known REITs to compete for the attention of investors.

The flip side is that more values are building in these smaller REITs for investors willing to search a bit and wait until these very good but smaller REITs are "discovered" by the market. Remember, many of today's favorites were undiscovered and very small 10 years ago. Federal Realty comes to mind: A decade ago FRT had only $38 mil. assets and its shares had $24 mil. total market value. Today FRT holds $475 mil. assets and shares are valued at $325 mil.

A careful reading of these 10 equity REITs shows that each invests inside a niche (e.g., small-city shopping centers for New Plan, landlocked urban centers for Federal) chosen carefully to protect against the most ruinous inroads of competition. The most successful equity REITs cling to their niches and enter new areas only at their peril (e.g., Federal is currently suffering because it bought a center in Atlanta, where the real estate market is more open to competition).

All the REITs reviewed this issue are included in our Portfolio Selector and we have only gradations of enthusiasm in recommending their shares. Washington REIT, for instance, looks to be fully priced and buyable on dips while First Union and IRT Property appear the most undervalued on our property value model.

We suggest investors consider a package approach to the equity REITs, and approach selection between stocks on some of the following value benchmarks:

Cash flow and dividend growth: CFS growth is essential for dividend growth, and half of the 10 have boosted payout in recent months (Federal Realty, New Plan Realty, United Dominion Realty, Washington REIT, and Weingarten Realty). Modest payout bumps are possible in Burnham Pacific, IRT Property and Western Investment. Two should be flat: First Union and HRE Properties.

IN THIS ISSUE

Here's our tally of 1988 and 1989 expected cash flow per share (CFS), and current dividend yields, for the 10 REITs:

Trust	Div. Yld.	—CFS Est.— 1988	1989	% Chng.
Burnham Pac	7.1%	1.25	$1.35	+8.0%
Federal Rly	6.0	1.18	1.35	+14.4
First Union	7.9	1.27	1.30	+2.3
HRE Props.	7.1	1.78	1.80	+1.1
IRT Property	8.2	1.25	1.30	+4.0
New Plan Rl.	6.4	0.90	0.99	+10.0
United Dom.	6.7	1.21	1.34	+10.7
Wash.REIT	5.1	1.01	1.05	+ 4.0
Weingarten	6.8	2.15	2.25	+4.7
Western Inv.	7.0	1.37	1.50	+9.5
Totals	**6.8%**	**$13.37**	**$14.23**	**+6.4%**

Total return: Combining current yield of 6.8% for these 10 with an expected 6.4% cash flow growth should give an investor in all 10 an overall return of 13.2%, which looks to us as the benchmark return. If our projections hold up, a few like Federal Realty, United Dominion, and New Plan should do 15%-plus total return (assuming price adjusts upward with cash flow growth), with Burnham Pacific and Western Investment not far behind.

The group's total return target of 13.2% is about 1.5% better than the implicit 11.7% annual growth in the S&P 500 today (i.e., a 2.5% equity risk premium over the 9.2% yield on 5-year Treasuries). Interestingly, only about 3.65% of the S&P total return derives from dividends, while equity REIT investors get over half their total return from known dividends.

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Current Value Estimates: For some time we have been concerned that more and more equity REITs haven't been giving investors any internal estimate of their underlying net asset value. The reason is simple: high current value estimates might attract raiders (e.g., HRE Properties is already the target of a conditional tender offer from an unfriendly suitor).

In some cases the reverse might hold, that underlying property value is so low relative to stock prices that an "official" value estimate might trigger selling.

In that vein we begin this issue to estimate the underlying net asset value of these large and seasoned equity REITs. Our approach has been quite different than other Wall Street estimates we have seen, because we have tried to correlate valuations of present net operating cash flow (the real estate man's Net Operating Income, or NOI) with real estate industry benchmarks of value based on square footage, rents per square foot, and gross rent multipliers where appropriate. The method produces a range of value estimates that taken together indicate a breakup value for these REITs that gives no credit for management value enhancement. Our estimates point toward First Union and IRT Property as the most undervalued in this group, as discussed in their reviews. Here's a table of our ranges of values:

Stock	Est. Value Low	High	% Low to Price
Burnham Pacific	$18.50	$21.50	0.0%
Federal Realty	21.50	24.00	+8.7
First Union	26.25	NE	-28.1
HRE Properties	27.50	NE	- 9.1
IRT Property	20.00	22.00	-12.5
New Plan Rlty.	16.00a	NE	- 3.1
Utd. Dominion	20.50	NE	-11.0
Washington REIT	17.00	19.00	+15.5
Weingarten Rlty.	23.00	24.00	+ 8.3
Western Invest.	19.00	NE	- 3.9

a-Company estimate.

BPP 4/21/89 #27

BURNHAM PACIFIC PROPERTIES, INC. (BPP: ASE)

This equity REIT has prospered by focusing on properties located in San Diego, Calif. After converting to a REIT from MLP format in Mar. 1987, BPP has moved rapidly to become a significantly larger REIT player. Key steps: In June 1988 it acquired a sister trust via merger, and two public offerings in June 1988 and Jan. 1989 raised a total $55.3 mil., to bring shareholders' equity to $70.4 mil.

Gut Issue: Can BPP maintain internal growth without further stock offerings? BPP says its capital base is now adequate for the near-term and it won't be coming back to the market with stock offerings to dilute book value and earnings per share.

In the past year BPP recorded strong EPS and CFS growth by upgrading smaller retail properties in San Diego. BPP has specialized in buying new, smaller retail centers before they are fully leased and filling them thru leasing efforts of its sponsor, John Burnham & Co., an old-line San Diego realty firm. For example, leasing at two new centers, 58,600 sq. ft. Village Station and 70,500 SF Navajo Shopping moved over 95% in the March qtr., vs. 87% and 82% at year end. A third, Miramar Center with

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186,300 SF moved over 98% from 95%.

Operating results and dividends: As result, 1988 EPS came in at $0.31/sh. and gross cash flow was $1.25/sh. before mortgage and debt repayments. March qtr. EPS came in at $0.17, vs. a minor loss, and we see gross cash flow approaching $1.35-1.40/sh. in 1989. Dividends are being paid at a $1.32 annual rate and 1988 payout was 45.5% taxfree capital return.

Properties: BPP owns a net 429,800 SF in four office buildings, 98.4% occupied at year-end 1988; net 868,700 SF retail in 12 neighborhood and community shopping centers, 93.1% occupied at year-end; and the land and a 50% interest in the 258-room Beverly Garland Hotel in Hollywood. Offices are generally leased to large single tenants such as Alcoa and Fisher Scientific; about 300 tenants occupy retail space.

Current value: We think BPP shares have current value of about $18.50/sh., mainly because most properties are newly acquired; value could be as much as $3/sh. higher because of institutional demand for quality Calif. properties.

Advice: With expected total return of about 15% (7% yield, 8% cash flow growth), BPP should outpace the general market and merits current purchase. Ranking of B is held. (KDC)

BPP—ASE RANK B Dec. years 5.64 mil. shs.
Price:$18.50 Div. $1.32 Yld. 7.1% Price X CFS: 13.7

Per.	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
9/85 Yr.	$0.50	$1.03	$1.03	$15.00	$14.42	7-7%
9/86 Yr.	0.41	1.03	1.07	16.33	12.50	8-7
3/87a	0.06a	0.98A	1.06A			
12/87b	d0.01b	1.17A	1.15A	21.50	15.25	5.4-7.7
12/88	0.31	1.25	1.29	20.25	16.38	6.4-7.9%
12/89E	NE	1.35	1.34	19.00	18.00z	

a-6 mon. b-9 mon. z-To date. A-Annualized.

Finances: Debt: $70.6 mil. Equity: $70.4 mil. ($12.48/sh.) Debt/equity ratio: 1.0-1.
Address: 610 W. Ash St., Box 2910, San Diego, CA 92112. (619) 236-1555.

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FEDERAL REALTY INVESTMENT TRUST (FRT: NYSE)

FRT is a Maryland-based REIT owning older strip and mall shopping centers, primarily in the Northeast. FRT focuses on buying older centers in fully developed urban locations where there's no land for potential competitors. Then FRT upgrades the centers and their tenant mix, aggressively adding value thru rolling over old leases, upgrading tenant mix, refurbishing, and expanding space where the site permits. That strategy has generated an unbroken 20-year stream of dividend payments that have been increasing 10.4% annually over the past five years. And FRT just increased its dividend to $1.40 annual rate (payable in July), up 16.7% from a year ago.

Gut Issue: Could a 1989 recession slow FRT's growth? With the smell of economic slowdown in the air, FRT's near-term cash flow gains are called into question. Looking back over FRT's history, it's hard to detect any appreciable loss of momentum during previous recessions. Too, a good portion of FRT's 1,185 retail tenants sell bread-and-butter goods and services, hence are less influenced by slowdowns in discretionary spending. Bottom line: we are not concerned about a shallow recession.

Properties: FRT currently owns 41 centers with 8.87 mil. net SF boasting 94.5% occupancy at year-end 1988. Major renovated properties are the 570,000 SF Shops at Willow Lawn, Richmond, Va., where FRT converted a strip center into an enclosed mall and recently renovated 242,000 SF Willow Grove center outside Philadelphia. In Dec. FRT bought a leasehold interest in seven centers with 1.6 mil. SF in N.J. and Long Island for $85.5 mil. capitalized value.

FRT is working out of two problems: 446,000 SF Northeast Plaza in Atlanta where occupancy fell to 79% after two large anchors vacated (one has been replaced); and Town & Country in Springfield, Ill., where Burlington Coat has taken a large space and management sees 90% occupancy by fall. Both centers likely will be sold when occupancy stabilizes.

Current value: We believe FRT's centers are worth $21.50 to $24/sh. fully converted on a break-up basis, based on current cash flow and value in the $65-$70/SF range. This estimate gives no credit for FRT's outstanding growth record, so shares look cheap to us. FRT's centers are carried on FRT's books at $433.5 mil. or $48.90/SF.

Cash flow and Dividends: Net cash flow was $1.18/sh. in 1988 before $0.29 capital gains and $0.175/sh. accretion of premium on its $100 mil., 5.25% Eurodebt. This accretion partially supports the dividend. We see 1989 basic cash flow rising about 8-10% to $1.27-$1.30/sh. Payout was just raised to $1.40 yearly.

Advice: Buy for long-term value creation by a seasoned management team. FRT should do well in a modestly growing retail market. The recently acquired New Jersey centers have excellent longer-term potential and FRT remains a premier Northeastern shopping center play, with about 14%-16% total return (6% yield plus 8%-10% cash flow growth). Shares hold at A Rank. (KDC)

FRT—NYSE Rank A Dec. years 13.86 mil. shares
Price: $23.38 Div. $1.40 Yield 6.0% Price/CFS: 14.7

	Op.EPS	Gains	Op.CFS	Div.	High	Low	Yield
1985	$0.75	0.12	$1.15	$0.98	$17.13	$13.38	7.3-5.7
1986	0.65	0.61	1.17	1.05	23.75	16.13	6.5-4.5
1987	0.47		1.29	1.14	25.75	17.25	6.6-4.4
1988	0.39	0.29	1.18	1.23	22.25	19.00	6.5-5.5
1989E	NE	NE	1.35	1.40	23.50	20.75z	

z-To date.

Finances: Debt: $240 mil. fixed, $116 mil. convt.; Equity:$95.7 mil. (or $6.93/sh.) plus deprec. $48.1 mil.($3.48/sh.) Debt/equity ratio 3.7-1.
Address: 4800 Hampton Lane, Bethesda, MD 20814. (301) 652-3360.

FIRST UNION REAL ESTATE INVESTMENTS (FUR: NYSE)

This major nationwide owner of institutional grade shopping centers and offices is reporting flat occupancies and operating cash flow growth isn't covering the dividend. FUR owns a net 6.2 mil. SF in 17 enclosed malls and 1.775 mil. SF in 9 urban office towers. To combat overbuilding FUR is spending heavily to remodel properties, and reports stronger leasing in some markets, altho anchor space at three shopping centers remains vacant.

Gut Issue: With all those woes, why do we see FUR shares as a strong buy? We have two reasons for liking depressed FUR:

1. Underlying asset values. Classic valuation based on income and operating cash flow puts a zero value on FUR's 1.45 mil. sq. ft. unleased space (416,000 SF in offices, 1,030,000 SF shopping center). Our method gives some credit for the rental leverage in this vacant space and comes up with about $26.25/sh. current market value. Management puts this at the lower end of value ranges it has heard from other Wall Streeters.

When FUR last published a current value in Dec. 1985, it said shares were worth $35.05. Since then nationwide overbuilding has cut FUR's office occupancy by 8.5% from 85.1% to 76.6%, and FUR's shopping center occupancy by 8.2% from 91.6% to 83.4%. Net operating cash flow has fallen right in line, by 9.3% to $1.27/sh. in 1988 from a peak $1.40 in 1985. But the lower cash flow is fully offset by a fall in the capitalization rate on FUR-type properties by about a full 1% since 1985, to about 8.1% for offices and 9.0% for retail nationally. Thus $35.05/sh. may still be in the ballpark.

Another way of looking at FUR is that its $1.27 net cash flow would return 4.8% to a buyer at our $26.25 estimate after servicing $221 mil. debt in place.

2. Market pressure. The Merchant Navy Pension Plan has announced plans to sell its 1.0 mil. share holding (5.6%) and has shunned a block sale in favor of dribbling shares into the market at 20,000 to 50,000 shares daily. This unrelenting selling pressure kills any rally in FUR. We understand that Britain has effectively halted all new money contributions to British pension plans. Merchant Navy owns 25% of New Plan Realty and would like to maintain its ownership by buying about 1.1 mil. new shares in NPR's currently planned offering (at $16, that's about $17.1 mil.). Selling its FUR shares is one major way Merchant Navy can raise the money and not increase real estate exposure.

Retail: When current renovations are done, FUR will have upgraded 13 of its 17 centers, containing 5.8 mil. net rentable sq. ft. FUR added 63,000 sq. ft. to Fairgrounds Square, Reading, Pa. in Sept. and reports strong traffic. Crossroads Mall, 428,000 SF in Ft. Dodge, Iowa, was modernized in Sept. and leasing interest is strong. Valley Mall in Yakima, Wash. and Mall 205 in Portland, Ore. both were also renovated in 1988.

But major anchor space remains vacant at 432,000 SF Peach Tree, Marysville, Cal., 56% occupied financially including 46% in payments from two vacated anchors; 224,000 SF Two Rivers Mall in Clarksville, Tenn., 34% occupied; and 291,000 SF Westgate Towne Ctr., Abilene, Tex., 38% occupied. None will go anywhere until anchors are found.

Offices and other properties: FUR's three Cleveland offices with 799,000 SF are in a strong market and FUR has just started a joint venture to build a major downtown office on vacant land it owns. The deal could add $1/sh. or more to value. But FUR also is suffering with weak office markets in Shreveport and Oklahoma City.

Cash flow and dividends: Operating cash flow of $1.27/sh. in 1988 won't improve much, if at all, for 1989. The dividend won't move up and likely will continue to be supported by realization of gains on properties sold in past years. Gains added $0.29 in 1988 and $0.05 in the March qtr.

Advice: We feel FUR is a strong buy now. (KDC)

FUR:NYSE RANK A Dec. yrs. 17.68 mil. shs.
Price:$18.75 Div. $1.50 Yld. 8.0% Price/CFS: 13.9

	Op.EPS	Op.CFS	Div.	High	Low	Yield
1985	$1.20a	$1 40	$1.32	$21.25	$16.88	7.8-6.2%
1986	1.18a	1.39	1.45	26.13	16.75	8.7-5.5
1987	1.06a	1.29	1.50	28.50	16.00	9.4-5 3
1988	1.10	1.27	1.50	25.50	17.50	8.5-5.5%
1989E	NE	1.30	1.50	20.25	17.63z	

a-Plus Cap. gains: '85-0.12; '86-0.22; '87-0.37; '88-0.29. z-To date.

Finances: Debt: $221.1 mil.; Equity: $95.8 mil.+$61.3 mil. deprec.: equals $8.84/sh. Debt/equity ratio: 1.4-1.

Address: 55 Public Sq., #1900, Cleveland, O. 44113. (216) 781-4030

HRE PROPERTIES (HRE: NYSE)

HRE, a diversified, conservatively managed REIT, has taken its licks the past two years as high office vacancies clobbered cash flow. HRE installed a shareholder rights plan in response to Roslyn, N.Y.-based Kimco Development Corp.'s buying 8.6% of stock. Kimco finally made a conditional offer of $27 per share in Mar. Recently, HRE retained Goldman Sachs to help it mull Kimco's offer.

Gut Issue: Will HRE get its cash flow back on track in 1989? In 1988 the ground-work was laid as vacant space was leased with vigor and expired space was rolled over at stable to slightly higher rents. The good news is that HRE did not have to resort to concessionary tactics. With office absorption adding support for rents and another strong year of leasing space, cash flow and dividends should resume a positive march.

Current reality: the numbers don't speak of turn-around yet. Jan. (1Q) cash flow is off 15% at $0.42/sh. (including $0.02/sh. sale gains). But, bear in mind that in the 1988 quarter HRE received a $0.07/sh. gain from its share of a jury award obtained by one of its joint ventures. In addition some new leases signed in late 1988 come on-line thru 1989. Bottom-line: the dividend is still not fully supported.

Cash flow from HRE's retail properties, while not spectacular, has not been disrupted like office space and has been lending some stability. Occupancy came in about 90% at Oct. year-end. Leasing 90%+ offers big leverage (particularly at Springfield, Mass. and Manassas, Vir.) and offers a good long-term retail play.

Office occupancy closed 1988 at 89%. Denver was an exceptional 89% and Houston was 75%, up over 9% from a year ago. Portland, Ore. is still a sore spot, closing at 84%, but is much improved from 76% a year ago.

HRE's rents can still be considered soft however; space in Houston goes for $9-10/sq. ft. and over $10 to $12/ sq. ft. in Denver. Portland however boasts $13-14/sq. ft.

About 88% of HRE's assets are in straight equity real estate: 41% retail, 44% office and 15% warehouse. Another 4% of assets are in mortgages with equity kickers. The remaining 8% is straight mortgages.

Kimco holds 8.6% of HRE's stock right now and could spend an indicated $148.1 mil. for the remaining shares if it gets to peek at the books first. Kimco has the firepower to pull-off a deal of this proporton. Kimco is not alone however, in its pursuit of HRE. Another player is HRE Chairman Charles Urstadt, who holds 12.6%. An Urstadt ally, George Lawrence is on HRE's board. Urstadt has not made his move yet. Kimco's offer seems reasonable, but the market hasn't reacted, indicating low confidence in its success.

Advice: Buy/Hold shares for leasing turn-around in progress. Takeover would offer quick return at today's prices and potential has intensified recently. Some quarters see this as sole support for the stock. We see recovery proceeding. Shares hold A Rank. (MJH)

HRE-NYSE Rank A Oct. years 5.99 mil. shares
Price: $25.13 Div. $1.80 Yield 7.2% Price/CFS: 14.0

	Op.EPS	Gains	CFS	Div.	High	Low	Yield
1985	$1.99	$0.02	$2.51	$2.26	$27.38	$23.13	9.8-8.3
1986	1.79	0.15	2.34	2.28	27.50	23.13	9.9-8.3
1987	1.35	0.17	1.85	1.92	27.75	17.25	11.1-6.9
1988	1.06	0.09	1.78	1.80	25.88	18.13	9.9-7.0
1989E	1.10	0.10	1.80	1.80	23.63	z21.50	7.6-8.4
1990E	1.20	0.10	1.85	1.84			

z-To date.

Finances: Debt: $17.6 mil. Equity: $133.3 ($22.25/sh.) Debt/equity Ratio: 0.13-1
Address: 530 Fifth Ave., N.Y., N.Y. 10036. (212) 642-4800

IRT PROPERTY CO. (IRT: NYSE)

IRT invests in income producing properties (primarily shopping centers) in the Southeastern U.S. IRT obtained interests in six Southeastern shopping centers with 351,000 SF in its 12/87 acquisition of Harris-Teeter Properties, a small REIT sponsored by a Southeastern grocery chain.

Gut Issue: Will IRT's new financing/development program provide 1989's portfolio growth? To grow its portfolio, IRT has undertaken negotiations with various shopping center developers for ground-up development of Harris-Teeter shopping centers in Vir. and N.Car. IRT would get an option to purchase at prices based on leasing success. The deals protect IRT with risk reducing provisions. Two such center deals were closed in 1988, at Hartsville, S.Car. and Greenville, N.Car.

IRT has the cash; $33 mil. or $3.42/sh. to be exact. When we looked last, low cash returns were penalizing EPS. However today cash is earning over 10% return. This indicates that new deals would be likely to return slightly better. Development lending with purchase options, while riskier, may be the most attractive way to acquire new properties today.

A major renovation at IRT's largest single property, 480,000 sq. ft. enclosed Valley West Mall located in Glendale, Ariz., was recently completed, a positive step in maintaining the mid-90% occupancy this center has enjoyed. The changes were made to increase traffic, permit further expansion and lead to higher rents. Management believes the $2 mil. renovation has resulted in $10 mil. value-added.

Current value: IRT's portfolio at year-end, was valued at $169 mil. cost. Shopping centers at cost (including direct financings and land lease-backs) are approx. 87% of the total with 5.25 mil. SF space in 64 centers. Cost is about $32.25/SF. We think current value is in the $20-22 per share range.

In 1988 IRT added four shopping centers with 242,900 sq. ft. of space to its portfolio for $15.2 mil. or $63.47/sq. ft. Three of the centers have a Wal-Mart store on premises, one as anchor, the fourth is a Harris-Teeter center. They are: The 37,000 sq. ft. Harris-Teeter center in Lexington, Vir.; Colony Square, Fitzgerald, Ga., a 50,000 sq. ft. center anchored by Food Lion and attached to a Wal-Mart store.; The Pascagoula (Miss.) Center, 66,900 sq. ft., anchored by a Delchamps food store and K&B drug store with Wal-Mart attached.; and Old Kings Commons, in Palm Coast, Fla., an 85,000 sq. ft. center anchored by a new 54,000 sq. ft. Wal-Mart. IRT's initial yields on these centers is approx. 9-1/2% for the last three and 10.5-11.5% for the first.

Advice: Strong buy/hold. IRT is well positioned in direct financing leases and more aggressive strip and mall shopping centers. IRT currently trades about 15% below conservative value estimates. Stock stays at A Rank. (MJH)

IRT-NYSE Rank A Dec. years. 9.71 mil. shares.
Price: $17.75 Div. $1.40 Price/CFS: 13.7

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	$1.04a	$1.15	$1.13	$17.63	$14.38	6.4- 7.9
1986	0.85a	1.03	1.45	19.00	12.38	7.6-11.7
1987	0.76a	1.09	1.30	20.38	12.88	6.4-10.1
1988	0.82a	1.25	1.38	18.88	14.50	7.3- 9.5
1989E	0.90a	1.30	1.44	18.63	17.25z	7.7- 8.3
1990E	1.00a	1.35	1.50			

a-Plus gains: '85-0.19; '86-0.38; '87-0.07; '88-0.75; '89E-0.20: '90E-0.25. z-To date.

Finances: Debt: $102.4 mil. Equity: $109.0 mil. (Incl. dep.) or $11.23/sh. Debt/Eq. 0.94-1
Address: 200 Galleria Pkwy. NW, # 1400, Atlana GA. 30339. (404)955-4406.

NEW PLAN REALTY TRUST (NPR: NYSE)

New York-based NPR buys shopping centers east of the Mississippi, concentrating on slower-growth towns that are not as inviting to competition. The trust upgrades rents and returns by aggressively expanding, renovating, releasing and promoting the properties. In Aug. NPR became the first REIT to become self-administered when it absorbed long-time manager, Dover Management Corp. NPR has a public offer of 3.3 mil. shares in registration.

Gut Issue: How will the market react to NPR's bid to raise more cash while it is still awash in funds? Not that NPR has been sitting idle; it has added ten properties in the year-to-date including a W.Va. shopping center acquisition done thru issue of 236,436 restricted or non-tradable shares of stock. Thus good progress has been made toward deploying its substantial cash resources hovering at $74 mil. level or $2.75 per share (not including potential proceeds from its current offer which should be about $50 mil.). New properties acquired in 1988 cost $23.6 mil., including mortgages payable.

For more than two years, NPR had been sitting on its cash pile, waiting for the deals to come. It appears the wait is over. In an environment of rising interest rates, cash deals bring higher yields.

Current value: With the advent of NPR's public offering, talks that have been ongoing with a large Japanese investor for a private placement have cooled. NPR's offer is slated for co-management by Merrill Lynch and Drexel Burnham Lambert, but if Drexel sells its brokerage operations this could change. NPR appraises its assets at $16/sh. using an aggressive 5% capitalization rate for its property income. The market is in agreement.

For the six months to Jan., NPR earned $0.44 per share, up 7% from 1988's period. Cash flow increased 12% to $0.46 per share. NPR just boosted its dividend to a $1.00 per share annual rate. We expect strong fiscal 1989 growth. New acquisitions should provide NPR with another year of 10%-plus cash flow growth. Merchant Navy Officers Pension Fund of Great Britian holds nearly a quarter of shares.

NPR's portfolio consists of 44 shopping centers with an aggregate 682 leased units with gross leaseable space of 5.8 mil. SF. NPR's Roosevelt Mall, in Philadelphia, accounts for 25% of rental revenue. The mall, currently being remodeled is approx. 40% completed, and NPR says work is not disrupting rents. Centers are about 96% occupied. NPR also has an apartment component of five rental complexes with 838 DU's with occupancy at 95%.

Advice: Buy for the long term. NPR is a steady performer with an impressive growth record and a powerful war chest. Rank holds at A. (MJH)

NPR-NYSE Rank A July years 26.8 mil. shares
Price: $16.00 Div. 1.00 Yield 6.1% Price/CFS: 19.19

	EPS	CFS	Div.	High	Low	Yield
1985	$0.70	$0.73	$0.65	$17.88	$13.75	3.6-4.7
1986	0.78	0.81	0.73	15.25	11.00	4.8-6.6
1987	0.80a	0.87a	0.81	18.38	10.75	4.4-7.5
1988	0.88b	0.90b	0.89	16.75	13.25	5.9-6.8
1989E	0.95	0.99	0.98	16.38	15.25z	5.9-6.3
1990E	1.05	1.09	1.07			

a-Incl. 6c/sh. acct.chrg. b-Incl. $0.08/sh. capital gains. z-To date.

Finances: Debt: $22.7 mil. Equity: $161.9 mil. $5.98/sh. Debt/Equity ratio 0.14
Address: 1120 Ave. of the Americas New York, NY 10036. (212) 869-3000.

UNITED DOMINION REALTY TRUST (UDRT: OTC)

UDRT is an apartment renovation and upgrading specialist that operates mainly in NC & VA. UDRT benefits from a resurgance of multi-family dwellings in its region, strategically supplementing its low-cost portfolio (approx. $22,500/unit) with new properties. Late in 1988 UDRT set up a beachhead in Atlanta, and has added to its initial acquisition with another in early 1989.

Gut Issue: Will UDRT find a hospitable rate environment when it goes to roll-over bank credit facilities? UDRT has done an exceptional job at lowering its cost of funds. However by using proceeds from its last two financings to paydown bank lines, UDRT will have to revert to using this expensive means of financing for new acquisitions.

UDRT raised $35.6 mil. in 1988 in a 2.3 mil. share offering. Proceeds were used to retire bank-line debt, with remainder used to fund two May acquisitions and capital improvements. With 1989's acquisitions the net result is that UDRT has borrowed approx. $16-17 mil. bank-line debt of approx. $50 mil. available.

1988 operating cash flow was up 12% to $9.1 mil. or $1.21 per share versus $6.4 mil. or $1.08 per share in the previous year. Improvement is likely to continue as a backlog of renovations coming on-stream that should add to cash flow. We see about a 10% gain in CFS to $1.34 in 1989; payout was just boosted 3% to $1.20 annualized and further growth seems in store.

Current value: Based on Southern property values, we estimate UDRT's value at $20.50/share.

In the year-to-date UDRT has added two new properties: Club Thames, Charlotte N.C., a 200,000 SF, garden style apartment, acquired for $4.5 mil. or $22,500 per DU; and a

second Atlanta apartment with 360 units, acquired for $8 mil. or $22,222 per unit. UDRT now owns 31 apartment complexes with 6,629 units and 16 shopping centers with 1.7 mil. SF.

Advice: Buy to 19. We see continued growth. UDRT is a good hedge against both inflation and recession; one or both of which we should see in the intermediate term. With apartments near full occupancy, supply absorption should help UDRT increase rents over inflation in next 12-18 months. UDRT should maintain 10% growth of cash flow and dividend. Rank remains at A. (MJH)

UDRT-OTC Rank A Dec. years. 8.3 mil. shs.
Price: $17.75 Div. $1.20 Yld. 6.8% Price/Cash flow: 15.1

Year	EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	$0.22a	$0.97	$0.94	$14.50	$10.34	6.5-9.1%
1986	d0.08a	0.91	0.96	17.50	12.50	5.5-7.7
1987	0.16	1.08	1.02	18.75	14.13	5.4-6.5
1988	0.25	1.21	1.12	18.13	15.63	6.5-7.5
1989E	0.30	1.34	1.24	21.75	18.63	z6.0-7.0
1990E	0.35	1.45	1.32			

a-Plus gains: '86-$0.33/sh. & $0.04/sh. debt retirement loss; '85-$0.06/sh. z-To date.

Finances: Debt: $104.6 mil. Equity: $104.5 mil. (incl. dep.) $12.61/sh. Debt/Equity ratio 1-1.
Address: 5 E. Franklin St., P.O.Box 12365, Richmond, VA 23241 (804) 780-2691.

WASHINGTON REAL ESTATE INVESTMENT TRUST (WRE:ASE)

WRE 4/4/89 #27

This Washington based equity REIT has resumed its remarkable long-term growth after stalling in response to overbuilding. With all but one property in Washington, D.C., WRE has prospered from long-term growth in government. Two problem properties have been worked out; 1988 operating net cash flow came in at $1.01, up 3%, and we see about another 3%-4% gain in cash flow per share in 1989.

Gut Issue: With buildings full, gains will be slower. WRE ended 1988 with its properties 96.6% occupied, highest occupancy among the 10 REITs reviewed this issue. With no new space in the pipeline, WRE must count on operating efficiencies and overall market rental growth for 1989 gains.

And while the Washington market has shown remarkable resiliency in face of nationwide overbuilding, investors must adjust to this pause in WRE's longer-term growth. Over the past five years, WRE's net CFS has risen at 8.1% yearly. WRE was a bit slow in responding to the surfeits of space created by massive tax-shelter building in the early 1980s, and the space overhang still restrains near-term growth. Hence we see only small near-term distribution gains (table below).

Properties: WRE owns 3.2 mil. SF of properties with $89.1 mil. cost divided by cost at Dec. 1988 as follows:

Type	Mil.$	SF/DU	Per SF/DU	% Occ.
Shopping ctrs.........	$30.7M	758Tsf	$40.53	98.5%
Office bldgs.............	23.0	559Tsf	41.07	96.2
Apartments...............	19.9	1,200DU	16,575	94.9
Business ctrs............	15.5	601Tsf	25.83	98.0

Problems at WRE's biggest and touchiest property, 360,000 SF, 22-story One Metro Square in Rockville, Md. are behind and occupancy rose to 97% by year-end. Also, the U.S. government renewed leases at good increases for two distribution centers. Shopping center rents are now starting to show benefits of renovation of the 45,000 sq. ft. Clairmont Center, Salisbury, Md., where a former Safeway supermarket was remodeled and split into higher-rent smaller-shop space. The 45,000 SF Dover (Del.) Mart has been renovated; and the Concord Center in Springfield, Vir. is being remodeled and 18,000 SF added to its 51,000 SF.

Diversity by property type has helped WRE ride thru slow periods before despite staying in a single geographic area. WRE owns 100% of its properties, hence doesn't take in partners, buy into joint ventures, or buy unfinished buildings. Debt leverage is a low 0.2 of equity at book and 0.05-1 at market.

Cash flow and Dividends: Net cash flow should be about $1.05/sh. in 1989, leaving little room for increase from the $1.00 annual dividend rate. WRE split shares 3-for-2 in 1988.

Current value: Our models tell us properties are worth $17-$19/sh. on breakup value, again without any credit for management's superior track record in creating value.

Advice: Once again we worry about WRE's elevated price, and suggest investors hold this quality stock and buy on any downdraft. New purchases should only be for long-term holdings. (KDC)

WRE-ASE RANK A Dec. yrs. 13.78 mil. shs.
Price: $19.50 Div. $1.00 Yld. 5.0% Price/Cash flow: 19.1

Yr.	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	$0.74a	$0.82	$0.78	13.42	10.00	8-6%
1986	0.74	0.91	0.85	17.75	12.42	7-5
1987	0.76	0.92	0.87	18.25	11.67	7.5-5
1988	0.84	1.01	0.95	21.00	15.00	6.2-4.5
1989E	NE	1.05	1.00	21.50	18.50z	5.4-4.7z

a-Plus cap. gains $0.46. z-To date.

Finances: Debt: $12.5 mil. Eq. $61.6 mil.; dep. $19.8 mil.; total $5.91/sh. Debt/eq. ratio: 0.2-1.
Address: 4936 Fairmont Avenue, Bethesda, MD 20814. (301) 652-4300.

WEINGARTEN REALTY INVESTORS (WRI: NYSE)

WRI concentrates on the purchase of shopping centers in proximity to Houston, but also has a sizable land bank and portfolio of office, multifamily and industrial properties in Tex. and near-by states. WRI centers have the distinction of maintaining strong occupancy even at the nadir of the Texas economy. WRI is thriving now that Houston has made a come back, with unemployment down to 5.9% at Dec. 31, 1988, versus 6.7% the year before. During 1988 WRI placed $60 mil. in Eurodollar convertible debentures.

Gut Issue: WRI is quickly drying-up available cash and bank-lines; will it take a rest or seek an infusion of new funds? In 1988 WRI added approx. 10% to its portfolio (on a sq. ft. basis). If a similiar expansion is to occur in 1989, current bank-lines will be inadequate. If WRI were to stand back and digest it could conceivably parlay strengthened markets into cash flow gains.

WRI has huge potential operating leverage. WRI's

centers appear to rent for below $7/SF on average, and that's a blended rate for both anchors (typically supermarkets) and smaller shops. A 10% rise in small-shop rents (estimated at about 50% of total space) could add about $0.25-0.50/sh. to gross cash flow. We think that's not unreasonable for one-two years out and at this juncture looks like the play in WRI's stock.

Current value: On a breakup basis we see WRI valued at $23-24/share. The present premium is justified by: a) hope of Tex. recovery and; b) land appreciation, which we cannot value at present.

WRI's shopping centers account for about 90% of revenue and closed 1988 at 93% occupancy. That's a tribute to WRI's conservative policy of not starting a new center until it is 50% preleased. Houston-area competitors are averaging around 80%. The overall portfolio is 91% leased, about the level of 1985 during the most severe part of the Southwest real estate crisis.

Retail space consists of 104 centers with 8.27 mil. sq. ft. which composes about 79% of WRI's developed portfolio, with 58% located in metro Houston and another 24% elsewhere in Texas. About 18% of the remaining portfolio is industrial space and 3% split between office and multifamily residential.

K-mart has agreed to open two stores on WRI properties in Houston. The first store, will contain about 86,000 SF and is already under construction at Three Corners at O.S.T. The second store will be about the same size and is slated for WRI's Centre at River Point, currently under development.

Advice: Buy shares. We boost our 1989 cash flow estimate to $2.25/sh. and think a further rise is likely for 1990. WRI amply covers its payout and has plenty of room for dividend increases, most recently to $1.76/share. Stock continues at A Rank. (MJH)

WRI-NYSE RANK A Dec. yrs. 13.96 mil. shs.
$25.50 Div. $1.68 Yld. 6.6% Price/Cash flow: 11.8

Yr.	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	$1.14	$1.82	$0.97	$20.38	$19.00	8.0-7.0%
1986	1.27	1.93	1.56	25.00	19.50	8.0-6.0
1987	1.28	2.04	1.60	28.38	18.50	9.0-5.0
1988	NE	2.15	1.68	28.25	22.38	7.5-6.0
1989E	NE	2.25	1.76	28.38	25.50z	6.2-6.9
1990E						

z-To date.

Finances: Debt: $147 mil. Eq. $104.2 mil. + dep. $80.4 mil., or $13.22/sh. Debt/eq.: 1.8-1.
Address: 2600 Citadel Plaza Dr., P.O. Box 924133, Houston, TX 77292. (714) 866-6000.

WESTERN INVESTMENT REAL ESTATE TR. (WIR: ASE)

WIR invests, mainly thru participating mortgages and leasebacks, in shopping centers in northern and central CA and NV, regions poised for rapid growth.

Gut Issue: Will WIR test the equity waters in 1989? WIR raised $75 mil. in a July, 1988 offering of 8% convertible debentures, giving it a relatively low cost of capital in today's market conditions. With these proceeds invested, WIR now may have to return to using higher cost variable bank-line financing until it can return to the capital markets.

WIR has approx. $50 mil. available on its $60 mil. bank-line. This provides WIR with the opportunity to take advantage of the current Calif. growth boom. Investors should recognize that borrowing short-term to buy long-term assets carries the risk that if WIR stock takes a tumble, future financing becomes difficult.

Current value: With the bulk of properties purchased recently, we see value at about $19/share.

WIR has made two purchases so far in 1989: for $10.9 mil. a 50% interest was acquired in Pine Creek Shopping Center, Grass Valley, CA, a 218,000 SF center that is 90% occupied; and in Mar. for $3.9 mil., WIR acquired the Fireman's Fund Office Building in Petaluma, CA, a 42,366 SF, office, 100% occupied by The Fireman's Fund Ins. Co.

Net real estate investments of $216 mil. at Dec. 31, 1988, consisted of $151 mil. or 70% equity ownership including leasebacks; $61 mil. or 28% participating convertible loans; $3 mil. or 1% direct financing leases.

WIR's investment in the Ross Valley Medical Center, in Larkspur, CA is causing problems as the operators have filed for Chapter 11 protection. The Center has been in default since Mar. 24. Until resolved, cash flow will be penalized approx. $0.02/share per quarter. Managment expects resolution soon.

Advice: Hold shares with cautious eye toward Ross Valley developments. New investments come in around 10% and based on 1989 investments of approx. $10 mil., this indicates incremental cash flow increases of about $0.07 per share (conservative based on five year average drop to available cash). Participations and percentage rents are icing. If WIR resolves its problems at Ross Valley expeditiously and makes additional 1989 investments to match cash flow gains in the first quarter, we see it reaching our cash flow objective for 1989 of $1.50 per share. If Ross Valley lingers, cut $0.05/sh. off the mark. Ranking stays A. (MJH)

WIR-ASE Rank A Dec. years. 11.97 mil. shares.
$17.75 Div. $1.28 Yld. 7.2% Price/Cash flow: 12.9

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	$0.91a	$1.05a	$1.03	$21.25	$17.00	4.8-6.15
1986	1.01a	1.15a	1.09	26.13	19.00	4.2-5.7
1987	1.07	1.27	1.165	20.50	13.38	5.7-8.7
1988	1.13a	1.37a	1.27	19.63	16.00	6.5-8.0
1989E	1.20	1.50	1.35	18.25	16.88z	7.4-8.0
1990E	1.28	1.55	1.43			

a-Plus sale gains of $0.07, 1985,1986; $0.03, 1988. z-To date.

Finances: Debt: $76.7 mil. Equity: $148.6 mil. or $12.42/share. Debt/equity ratio: 0.51-1.
Address: 3450 California St., San Francisco, CA 94118. (415) 929-0211